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# Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

In the Matter of )

Federal-State Joint Board on ) CC Docket No. 96-45
Universal Service )

Rural Task Force Recommendation

RECEIVED

TO: The Federal-State Joint Board on Universal Service

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COMMENTS OF THE WESTERN ALLIANCE AND REQUEST FOR EXPEDITED ACTION

### THE WESTERN ALLIANCE

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#### Summary

The Western Alliance urges that the Rural Task Force Recommendation The Federal-State Joint Board On Universal To Service be adopted in its entirety and implemented on an expedited basis to become effective January 1, 2001. Although the Western Alliance would not support each and every element Recommendation if they had been proposed separately, it supports finely balanced and Recommendation as а interconnected compromise that has obtained the consensus of the representatives of a diverse group of government, carrier and consumer entities. The Recommendation recognizes the unique and diverse conditions in the areas served by rural telephone companies, and sets forth a equitable plan for preserving reasonable and and advancing universal service therein.

The <u>Recommendation</u> is based upon appropriate principles, including (1) conformity with the statutory universal service principles Section 254(b) of the Communications Act; (2) use of an economically and administratively workable support mechanism; and (3) consistency with the principle of competitive neutrality.

The <u>Recommendation</u> rejects the application of a proxy model to the sizing or targeting of universal service support on the basis of extensive data and research demonstrating: (1) the material and substantial differences between rural and non-rural LECs, as well as between rural LECs themselves; and (2) the inability of proxy models to estimate the investment and expenses of rural LECs in an

accurate, useful or reasonable manner.

The Recommendation proposes additional universal service support be provided for rural LECs that acquire and upgrade the infrastructure and service of long-neglected rural exchanges. Whereas the Western Alliance believes that newly acquired exchanges should be treated exactly the same as pre-existing exchanges, it supports the consensus proposal so long as the entire Recommendation remains unchanged.

The Western Alliance supports the <u>Recommendation</u> that the High Cost Loop Fund be re-based and that a new cap factor applied on a going-forward basis. Once again, the Western Alliance would prefer elimination of the indexed cap on the High Cost Loop Fund in its entirety, but will support the consensus proposal so long as the entire Recommendation remains unchanged.

Finally, the Western Alliance supports the Recommendation that portable, per-line universal service support be disaggregated and targeted on a flexible basis depending upon local geography and cost conditions, and state regulatory and competitive environments. The Western Alliance has long opposed the "portability" of universal service support due to the dangers of gaming and "cherry-picking." However, in a world of portable universal service support, the most effective way to prevent gaming of the universal service mechanism ts to disaggregate rural LEC study areas into multiple zones based upon relative costs, population density and geography.

## Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

| In the Matter of                               | )                              |
|--|--------------------------------|
| Federal-State Joint Board on Universal Service | )<br>) CC Docket No. 96-4<br>) |
| Rural Task Force Recommendation                | )                              |

TO: The Federal-State Joint Board on Universal Service

### COMMENTS OF THE WESTERN ALLIANCE AND REQUEST FOR EXPEDITED ACTION

The Western Alliance, by its attorney, hereby supports the Rural Task Force Recommendation To The Federal-State Joint Board On Universal Service, adopted September 22, 2000 and released September 29, 2000. It urges that the Recommendation be adopted and implemented in its entirety on an expedited basis.

The <u>Recommendation</u> constitutes the consensus proposal for rural universal service reform by a broad cross-section of industry stakeholders, including representatives of state commissions, the Rural Utilities Service, consumer advocates, rural telephone companies, toll carriers, competitive local exchange carriers, and wireless carriers. It is the product of more than two years of study, discussion, negotiation and compromise by these representatives, all of whom were appointed by the Joint Board.

The Rural Task Force (RTF) has recognized the unique and diverse conditions and circumstances faced by areas served by rural telephone companies, and has developed a reasonable and equitable plan for preserving and advancing universal service in those areas.

Although the Western Alliance would not support each and every element of the <u>Recommendation</u> if they had been proffered separately and independently, it understands that the <u>Recommendation</u> is a compromise consisting of carefully interconnected and interdependent elements and that the entire package has obtained the approval of the representatives of a diverse group of government, carrier and consumer entities. Therefore, the Western Alliance supports the <u>Recommendation</u> in its entirety, and asks the Joint Board and the FCC to adopt it without changes.

In addition, the Western Alliance believes that uncertainties over the nature and amount of future universal service support have hampered the planning of rural telephone company investments, services and operations since the FCC first proposed substantial revisions to the federal universal service program in 1995 (CC Docket No. 80-286). The Western Alliance requests that this long period of uncertainty be ended by the consideration and adoption of the Recommendation at an early date by the Joint Board and the FCC. It proposes that the Recommendation be adopted before the end of this year and implemented as of January 1, 2001, or (if this is not possible) that it be adopted in early 2001 and made retroactive to January 1, 2001.

These comments are filed and served pursuant to the instructions in the FCC's <u>Public Notice</u> (Federal-State Joint Board on Universal Service Seeks Comment On Rural Task Force Recommendation), FCC-00J-3, released October 4, 2000.

#### The Western Alliance

The Western Alliance is a consortium of the member companies of the Western Rural Telephone Association (WRTA) and the Rocky Mountain Telecommunications Association (RMTA). It represents about 250 rural local exchange carriers (LECs) operating west of the Mississippi River, most of which serve less than 3,000 access lines.

Western Alliance members are highly diverse. They employ a variety of network designs, equipment and organizational structures. They serve a variety of farming and ranching areas, mountain and desert communities, and Native American reservations. They construct, operate and maintain their facilities under a variety of climate and terrain conditions, ranging from the deserts of Arizona to the frozen tundra of Alaska, and from the plains of Kansas to the valleys of Oregon to the mountains of Wyoming.

Western Alliance members are generally small companies serving sparsely populated, high cost areas. Because of their limited subscriber and revenue bases, Western Alliance members rely significantly upon existing federal universal service programs. They, therefore, have a substantial interest in the mechanisms and procedures employed to determine federal universal service support.

### The RTF Recommendation Is Based Upon Upon Sound And Appropriate Principles

The <u>Recommendation</u> is based upon three broad principles established by the RTF during its early organizational phase.

These principles are: (1) conformity with the universal service principles established by Congress in Section 254(b) of the Communications Act; (2) a support mechanism that is economically and administratively workable; and (3) consistency with the principle of competitive neutrality and the extension of the benefits of competitive telecommunications markets to rural and insular areas.

The Western Alliance supports the RTF's placement of the Section 254(b) universal service principles at the central core of its effort. These are the principles that Congress expressly adopted to define the purpose, nature and scope of universal service and related support mechanisms. Unless and until Section 254(b) is changed by subsequent legislation, these principles should be embodied in any and all support mechanisms proposed by the Joint Board and implemented by the FCC.

The <u>Recommendation</u> is fully consistent with the Section 254(b) principles applicable to rural and insular areas. It proposes a specific, predictable and sufficient federal support mechanism to ensure that quality services will continue to be available in rural and insular areas at just, reasonable and affordable rates. 47 U.S.C. Sec. 254(b)(1) and (5). It is designed to enable consumers in all regions of the Nation, including low-income consumers and those in rural, insular and high-cost areas, to have access to telecommunications and information services (including interexchange services and advanced telecommunications and information services) that are reasonably comparable to those services provided

in urban areas and that are available at rates reasonably comparable to rates charges for similar services in urban areas. 47 U.S.C. Sec. 254(b)(3). Finally, it presumes continued funding of the universal service support mechanism by equitable and nondiscriminatory contributions from all providers of interstate and international telecommunications services. 47 U.S.C. Sec. 254(b)(4) and (7).

Recommendation proposes a universal service mechanism that is economically and administratively workable. mechanism proposed by the RTF is based upon embedded costs that reflect the actual expenses of serving the many and varied rural telephone company service areas, rather than a "one size fits all" proxy model that will create arbitrary "winners" and "losers" among carriers serving these areas. The mechanism will administered in accordance with the effective and efficient accountability system of the National Exchange Carrier Association ("NECA"). Under this system, NECA and a group of industry experts review the annual cost data submitted by rural telephone companies for accuracy, reasonableness, and consistency with prior annual filings; require substantiation of questionable costs, and mandate adjustments where warranted; and bring unresolved issues to the FCC state commissions for resolution. Finally, the proposed mechanism will continue to be subject to an indexed cap on aggregate high cost loop support, albeit a cap that will be rebased and indexed according to a more reasonable and equitable rural growth factor.

The <u>Recommendation</u> will provide universal service support in a transparent and competitively neutral manner to all Eligible Telecommunications Carriers (ETCs) designated to serve rural telephone company service areas. This support will be targeted and disaggregated in a flexible manner that takes into consideration the widely varying geographic and cost characteristics of each rural service area, as well as the unique regulatory and competitive environments of each state. These proposals are fully consistent with the principle of competitive neutrality and the extension of the benefits of competitive telecommunications markets to rural and insular areas.

## The Recommendation Reasonably Rejects The Use Of A Proxy Or Synthesis Model For Rural Telephone Company Service Areas

The RTF performed extensive research and analysis regarding the conditions and circumstances of provisioning and providing telecommunications services in Rural America. In its <u>White Paper 2, "The Rural Difference"</u> (January 2000), the RTF found that there were material and substantial differences between rural and non-rural LECs, as well as significant diversity among rural LECs themselves.

The differences between rural and non-rural LECs included: (1) rural LECs serve more sparsely populated areas than non-rural LECs;

(2) rural LEC customer bases generally include fewer high-volume users than non-rural LEC customer bases; (3) rural LEC customers tend to have smaller local calling areas (and make proportionately

more toll calls) than non-rural LEC customers; (4) rural LEC customers have lower household incomes and different demographic characteristics than non-rural LEC customers; (5) rural LECS have substantially fewer lines per switch than non-rural LECs; (6) rural LECs have higher construction and operating expenses than non-rural LECs due too their isolated locations and rugged geographic surface conditions; (7) rural LECs have substantially higher plant investment and plant-specific expenses per loop than non-rural LECs; and (8) rural LECs lack the economies of scale available to non-rural LECs. In addition, the RTF found material differences among rural LECs themselves, including significant variations in study area sizes, customer densities, and terrain and climate conditions.

As shown by the RTF, these rural/non-rural differences and rural/rural variations preclude the use of a "one size fits all" proxy model for calculation and/or distribution of universal service support. Rather, these differences require the adoption of flexible universal service programs and mechanisms that can accommodate the wide range of market and operational circumstances faced by carriers serving rural areas.

The RTF demonstrated this conclusion beyond a reasonable doubt in its White Paper 4, "A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies" (September 2000). The RTF study showed that the FCC's proxy model was not capable of estimating the investment and expenses of rural LECs in an accurate, useful or reasonable manner.

Rather, the investment and expenses predicted by the proxy model for particular rural LECs differed by unacceptably large amounts from the actual investment and expenses of the companies. Moreover, the predicted investment and expenses of the subject rural LECs fluctuated so wildly above and below their actual investment and expenses that no useful patterns could be discerned. These variations and fluctuations have nothing to do differences in the efficiency or management of the rural LECs Instead, they reflect the fact that the proxy model is not designed to recognize and adjust for the unique and varying local operating conditions of the thousands of independent rural LECs. In fact, the proxy model ignores the reasonable and legitimate differences in the investment and expenses necessary for rural LECs to respond to unique local conditions and circumstances, and instead would create arbitrary "winners" and "losers" setting support on the basis of a hypothetical network that bears no discernible relationship to the actual networks of rural LECs.

The Western Alliance believes that the data and studies compiled by the RTF are so extensive and persuasive that the Joint Board and the FCC must join the RTF in rejecting the application of a proxy model to the sizing or targeting of universal service support for rural LECs.

### Rural LECs Should Receive Full Universal Service Support For Acquiring And Upgrading The Long-Neglected Rural Exchanges Of Larger Carriers

The Western Alliance supports the RTF Recommendation that additional universal service support be provided to rural LECs that acquire and upgrade the infrastructure and service of The Western Alliance believes that the RTF proposal exchanges. should have gone further, and that the new exchanges acquired by a rural LEC should be treated exactly the same as pre-existing exchanges for universal service support purposes. This would provide the greatest and most efficient incentive for investment in rural telecommunications infrastructure. However, in the spirit of maintaining the RTF consensus, the Western Alliance will support the RTF proposal for acquired exchanges so long as the entire Recommendation remains under consideration without modification.

During the past decade, rural LECs in the western states have purchased hundreds of rural exchanges from the large price cap carriers. Many of these exchanges had been very low-priority operations for their prior owners, and were still using long-outmoded equipment such as electromechanical switches. The FCC's study area waiver files contain numerous examples of how rural LECs upgraded these long-neglected rural exchanges. See, e.g., Union Tel. Co. and US WEST Communications, Inc., 12 FCC Rcd 1840 (1997) (upgrade to digital loop carrier, install new cable, replace aerial wire); Pend Oreille Tel. Co. and GTE Northwest, Inc., AAD

Docket No. 96-35, DA 97-67 (Jan. 10, 1996) (upgrade to fiber, offer single party service, purchase CLASS-capable digital switch); Accipiter Communications, Inc. and US WEST Communications, Inc., 11 FCC Rcd 14962 (1996) (install fiber, digital switch, extend service to unserved areas). The FCC's study area files also show that the promise and record of rural LEC upgrades resulted in vigorous support for these exchange acquisitions by state and local governments, local business communities, and local residents.

Notwithstanding their substantial public interest benefits, the FCC has taken steps to discourage rural LEC acquisitions of exchanges from larger carriers since 1994. The FCC first began conditioning grant of study area waivers upon the consolidation of the rural LECs pre-existing exchange and newly-acquired exchanges into a single study area. See, GTE Southwest Incorporated and EagleNet, Inc., 9 FCC Rcd 1008 (1994).Frequently, consolidations resulted in a carrier being "rewarded" for acquiring and upgrading a nearby exchange by suffering the loss of substantial high cost loop support that it previously had received for its pre-existing exchanges. See GTE Midwest Incorporated, Modern Telecommunications Company and Northeast Missouri Rural Telephone Company, 11 FCC Rcd 11553 (1996) (rural LEC acquiring and upgrading three GTE exchanges had high cost loop support for its eleven pre-existing rural exchanges reduced by over \$250,000 per Next, the FCC began placing caps on the total high cost loop support to be received by the acquiring rural LEC for its preexisting exchanges as well as its newly acquired exchanges during

the next three or more years. See Accent Communications, Inc. et al., 11 FCC Rcd 11513 (1996). While intended to limit Universal Service Fund outlays, these caps penalized rural LECs that upgraded the plant of their pre-existing and/or newly-acquired exchanges. Finally, since May of 1997, Section 54.305 of the FCC's Rules has limited the high cost loop support available to rural LECs for newly acquired exchanges to the per-line support for which the exchanges were eligible prior to the transaction. This rule continues to penalize rural LECs that upgrade newly-acquired exchanges.

The RTF Recommendation would provide additional universal service support to rural LECs that make meaningful new investments to enhance the infrastructure of, and improve the service in, newly acquired exchanges. While it still draws some artificial distinctions between pre-existing and newly-acquired exchanges, the RTF proposal provides far greater incentives for rural LECs to acquire and upgrade long-neglected nearby exchanges that the various FCC rules and policies of the last six years. The Western Alliance therefore supports it as an integral part of the entire RTF package.

### Any Cap Placed On High Cost Loop Support Must Be Reasonable

The Western Alliance supports the RTF Recommendation that the High Cost Loop Fund be re-based and that a new cap factor applied on a going-forward basis. Once again, the Western Alliance would

prefer that the RTF proposal eliminate the indexed cap on the High Cost Loop Fund in its entirety. However, in the spirit of maintaining the RTF consensus, the Western Alliance will support the RTF proposal for a modified cap so long as the entire Recommendation remains under consideration without substantial modification.

The Western Alliance has long opposed the "temporary" indexed cap on the High Cost Loop Fund that was adopted by the FCC in 1993. Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Report And Order, 9 FCC Rcd 303 (1993). Among other things, the Western Alliance believes that any cap violates the statutory requirement in Sections 254(b)(5) and 254(e) of the Communications Act that universal service support be "sufficient." Since 1997, the current indexed cap has been reducing the high cost loop support received by rural LECs steadily increasing portion of the amount "sufficient" under the existing universal service rules and These shortfalls are placing greater and greater strains on the operating and investment capabilities of rural LECS.

In the present environment, any significant relief from the current "interim" cap is welcome. The RTF proposal for re-basing the cap to encompass only rural LECs, and to reflect Year 2000 support and corporate operations expense, will improve the predictability and sufficiency of the high cost loop support mechanism. Likewise, the RTF's proposed "Rural Growth Factor" is

a more accurate, reasonable and equitable indexing factor for rural telephone company service that the index employed by the current "interim" cap.

### Portable Universal Service Support Must Be Disaggregated And Targeted Via Flexible Zones

The Western Alliance supports the RTF Recommendation that portable, per-line universal service support be disaggregated and targeted on a flexible basis (that is, into two, three or more zones) depending upon local geography and cost conditions, and state regulatory and competitive environments.

The Western Alliance has long opposed the "portability" of universal service support, primarily on the ground that it will encourage bogus "competitors" to "cherry pick" or "game" the system by serving the lower cost towns within rural LEC study areas in order to take per-line universal service support from the rural LEC that was computed on the basis of the entire study area. This would further impair the ability of rural LECs to serve the residents in those sparsely populated, outlying areas that the FCC's Second Report (Inquiry Concerning the Deployment of Advanced Communications Capability to All Americans), CC Docket No. 98-146, FCC 00-290, released August 21, 2000, has indicated are most likely to be victims of a "digital divide."

The Western Alliance agrees that, in a world of portable universal service support, the most effective and equitable way to prevent the "gaming" of the universal service mechanism to the

detriment of residents of outlying areas is to disaggregate rural LEC study areas into multiple zones based upon relative costs, population density and geography. It agrees with the RTF that such zones should be developed and designated in state commission proceedings, and that adequate flexibility be allowed to account for the widely varying cost and geographic conditions faced by individual rural LECs, as well as the differing competitive and regulatory environments within the various states.

### Conclusion

The Western Alliance supports the RTF's Recommendation in its entirety, and requests that the Joint Board and the FCC adopt it without changes and make it effective as of (or retroactive to) January 1, 2001. Although the Western Alliance would prefer no cap at all on high cost loop support and no limits on universal service support for newly acquired and upgraded exchanges, it recognizes that the Recommendation is a compromise. More important, it is a compromise that has been fashioned by, and received the consensus support of, a broad cross-section of industry representatives (including representatives of state commissions, the Utilities Service, consumer advocates, rural telephone companies, toll carriers, competitive local exchange carriers, and wireless carriers) appointed by the Joint Board. The Western Alliance believes that this compromise is fair and equitable to all government entities, carriers and consumers affected by it, and that it will preserve and advance universal service in the areas

served by rural telephone companies. Therefore, the Western Alliance asks the Joint Board and the Commission to adopt the <a href="Recommendation">Recommendation</a> in its entirety as soon as possible, and implement it as of January 1, 2001.

Respectfully submitted,

THE WESTERN ALLIANCE

Gerard J Du

Its Attorney

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Dated: November 3, 2000

### **CERTIFICATE OF SERVICE**

I, Kelly Laraia, hereby certify that I am an employee with the law firm of Blooston, Mordkofsky, Jackson & Dickens and that a copy of the foregoing "Comments of the Western Alliance and Request for Expedited Action" was served this 3<sup>rd</sup> day of November, 2000, by first class mail as indicated, to the persons shown on the attachment.

Kelly Laraia

Kelly Laraia

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